brisa

ANNUAL REPORT 1977

BASIC RESOURCES INTERNATIONAL S.A.

brisa *A single company-wide identity program was established in 1977. This program will help us to present a unified and cohesive BRISA organization worldwide and ensure that the benefits of recognition by one subsidiary accrue to all other subsidiaries.*

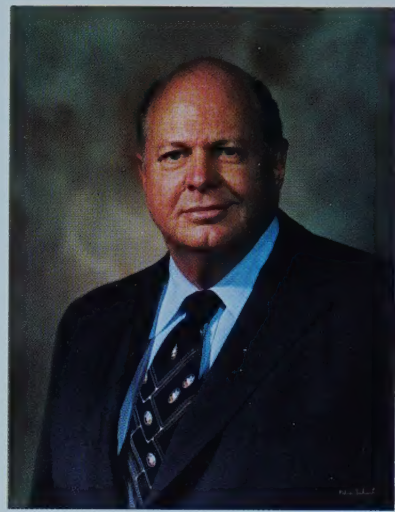
Above is our symbol.

ANNUAL REPORT 1977

Surveying pipeline route from Rubelsanto to Puerto Barrios

Stock pile of 12 inch pipe at port in Antwerp awaiting shipment to Guatemala

To The Shareholder



This past year has been very important in the development of our Company. Our petroleum operations were enlarged through an arrangement with Societe Nationale Elf Aquitaine (the French national oil company); three wildcat exploration wells were drilled on a widely-spaced regional basis, covering a distance of approximately 40 miles across our concession, which added materially to our knowledge of the petroleum concession, and discovered a commercial well on a new structure; an adjustment was made in the plans for our pipeline from Rubelsanto to the east coast which reduced the cost by approximately $7 million, and final contracts were executed for the construction of the line with Entrepose S.A. New financing was arranged from a consortium of French banks led by Societe Generale for approximately $26 million to cover the construction of the line and related facilities. The Company also arranged for new financing in December in the amount of $8.5 million, $4.0 million of which was used to retire debentures due in December 1977 and December 1978, and the balance for working capital.

These accomplishments, which are presented below in a more detailed manner, in our opinion, demonstrate that the Company has matured from its status as a small exploration company, and the shareholders can be confident of the future.

Petroleum

Excellent progress has been made in the petroleum exploration program which for 1977 consisted mainly of the drilling of three widely-spaced wildcat exploration wells on a regional basis: Xalbal, Chisec and West Chinaja, so that the geology of the entire concession could be determined with accuracy, and controls established to aid the interpretation of the seismic work. All production to date has been from the Coban C formation (Lower Cretaceous). Wildcat exploration wells on two of the three structures, Chisec and West Chinaja, penetrated this formation and encountered 35 gravity crude oil in Zone C17 (the Tortugas oil zone). The wildcat well on Chisec, which was located by surface expression only, without benefit of seismic, was indicated to be two to three thousand feet downdip from the crest of the structure. Although it encountered oil, this well is non commercial. We are optimistic over the prospects for a commercial discovery in future wells on this structure if located on or near the crest of the structure. West Chinaja 1, on production tests on a one inch restricted choke, flowed at the rate of 3200 and 3000 barrels per day from two separate intervals in Zone C17.

The Xalbal Well, located some thirty miles west of Rubelsanto, was abandoned due to mechanical difficulty just as it reached the Coban C formation, so was unsuccessful. Since the well did not penetrate the producing formations encountered in previous wells on the concession, we remain optimistic regarding the prospects of a discovery on this structure.

In summary: Out of three widely spaced wildcat exploration wells drilled during the year on three separate structures covering a distance of forty miles across our concession, one was unsuccessful in reaching its target due to mechanical difficulty and two encountered oil in Zone C17. One of these was definitely commercial and the other indicated the strong possibility of a successful completion for future wells properly located on the structure.

By any standards, the 1977 Program must be considered a successful program, since the normal expectations for wildcat exploration wells of this nature would be one success out of every ten to fifteen attempts. Our success ratio for the exploration drilling is unusually good. One would have expected the market to reflect this success. Instead, the market price for the shares is less than at the beginning of 1977. The shareholders and the investing public at large tend to look at each well as being critical instead of reviewing the ratio of success. Ours has been unusually high.

We do believe that the 1977 Program, in addition to discovering a commercial well on a new structure, West Chinaja, made a major contribution to our knowledge of the geology of the concession area, and increased considerably the prospects for future discovery on the two structures where the wells were non commercial. We believe that future exploration drilling of the Coban C formation can be carried out on the remaining thirty or so structures of interest with relatively low risk.

Petroleum exploration activities in Guatemala are expanding rapidly. The Government has recently requested bids in new contract areas. Proposals have been filed by major international petroleum companies such as Texaco, Amoco (Standard of Indiana), Getty Oil, Elf Aquitaine and Hispanoil. We welcome this increased activity and will benefit by the information developed by these companies through their exploration programs.

The operation in the past has been carried out, on behalf of the Joint Venture, by Shenandoah. In February 1978, Petromaya S.A., owned by the Joint Venture parties in proportion to their participating interest, assumed the operatorship of the 1973 and 1977 Joint Ventures. Elf Aquitaine has agreed to become the Operator of the 1977 Joint Venture (ex Rubelsanto) subject to formal approval by the Government of Guatemala.

We are now at somewhat of a crossroad regarding our petroleum exploration program. The pipeline from Rubelsanto to the east coast will be completed in the second quarter of 1979, at which time the Company anticipates a sizeable cash flow. There are numerous targets (structures) which have not been explored. There is the constantly recurring question: Should we enter into future exploration joint ventures to accelerate the exploration program on the unexplored areas, or wait until completion of the pipeline and cash flow to do this exploration with our own financial resources. To assist the Board in answering these questions, BRISA engaged what is reputed to be the world's foremost petroleum consultant, DeGolyer and MacNaughton, to appraise the exploration prospects of the remaining portion of our concession. DeGolyer and MacNaughton report that there is a good possibility that future exploration will discover a number of additional structures having reserves similar to Rubelsanto in the Coban C formation. They also report that the potential exists for finding major accumulations of oil and gas in the excellent reservoir rocks believed to exist on our concession below the Coban C, and not yet drilled on our concession. (Copies of this report are on file in our Guatemala, Nassau, New York and Luxembourg offices, and are available to the Shareholder on request.)

After review of this independent appraisal, which confirms the Company's view, we have decided to pursue an active exploration program now, rather than wait for completion of the pipeline, either through additional farmouts or additional financing of BRISA. Both are now being investigated.

Minerals

The mineral program has been hampered by the disappointing performance of the metals commodity market. Copper prices have continued to be unrealistically low. The operation of the Oxec Mine has been adjusted by reduction in staff and output, and the shifting from a below ground to an open pit operation to reach as near a cash break-even point as possible. Students of the commodity market project serious shortages in the supply of copper in the early 1980s, since new copper facilities cannot be justified at anywhere near the current price. However, worldwide inventories stand at an all-time high, and we see little chance of improvement in the price until these stockpiles are substantially reduced. Our policy is to maintain the operation at a low level of activity, at or near a point where we generate sufficient cash for operations so that, when prices return to realism, we will be able to capitalize on the shortages that must occur within the next two to three years. We have an excellent orebody and recent studies indicate that the potential exists for development of major ore reserves when the economics are favorable.

We have done little on the nickel concession for the same reason. Nickel inventories are too high and major producers are curtailing operations short term. However, the projection for the early 1980s is bullish. We have an excellent property which would take three to four years to put into production so we believe that 1978 is the time to start active negotiations regarding joint ventures on the nickel property.

The work being carried out by Vietscher Magnesitwerke A.G. on the magnesite property is progressing very well. Preliminary results of the feasibility study are excellent and we would expect final recommendations in the third quarter 1978. If the report is favorable as we now anticipate, this property will be placed into production at a cost of approximately $10 million and VMAG will purchase the entire production on most favorable terms for BRISA.

John D. Park

John D. Park
Vice Chairman and Chief Executive Officer

MERIDA
MEXICO
CARIBBEAN SEA
REFORMA FIELDS
Approximate Edge of Basin
30
53
57
62
63
64
PIPELINE ROUTE
PUERTO BARRIOS
Cu
Mg
Ni
CHEVRON-SHELL REFINERY
11,000 BOPD CAPACITY
HONDURAS
GUATEMALA
PACIFIC OCEAN
EL SALVADOR
brisa
KILOMETERS
0 10 20 40 60 80 100 120
SCALE
0 10 20 40 60 80
MILES
RUBELSANTO STRUCTURE
PIPELINE UNDER CONST.
OXEC COPPER MINE
NICKEL CONCESSION
MAGNESITE MINE
PETROLEUM RIGHT
RECENT MEXICAN DISCOVERIES
MAJOR CONCESSION AREA
PLAYA GRANDE
KALBAL
TORTUGAS
WEST CHINJA
RS-1
RUBELSANTO
CHISEC

brisa | PETROLEUM

Basic Resources International (Bahamas) Limited, a wholly owned subsidiary, holds a fifty percent interest in a 933,000 acre petroleum concession in Guatemala, as shown in the map on page 5, with Saga Petroleum A/S & Co. and Shenandoah Guatemala Inc. each holding twenty-five percent. There has been approximately $70 million spent to date on the exploration of the concession, with encouraging results. Surface geology, gravity and seismic activities have defined some thirty-seven structures which we believe to be excellent targets.

Five of these structures have been drilled to date and oil discovered on four. Mechanical problems prevented the well on the fifth structure from reaching its objective (Coban C), so it is still an interesting prospect.

RUBELSANTO AREA: 1973 Joint Venture

On the Rubelsanto structure sufficient drilling has been performed to develop a commercial petroleum reserve. The concession holders have an agreement with a Joint Venture consisting of BRISA and Shenandoah Oil Corporation, a Texas company, for financing the exploration and development of Rubelsanto. Shenandoah was the Operator of the Joint Venture.

The Operator furnished BRISA with technical reports showing that the proven recoverable petroleum reserves on Rubelsanto were 22 million barrels. A contract was entered into with Entrepose S.A. of France for the construction of a 12 inch pipeline from Rubelsanto to the east coast of Guatemala, a distance of some 120 miles at a cost of $30 million, to be financed by a consortium of French banks led by Societe Generale S.A., with the loan insured by COFACE, an agency of the French Government.

In accordance with the Joint Venture Agreement, it was necessary for Shenandoah to prove the existence of a Commercial Petroleum Reserve as defined by the Joint Venture Agreement, in order to earn its interest. Based on the technical reports from Shenandoah, BRISA entered into an agreement whereby Shenandoah would earn its interest upon completion of two additional wildcat exploration wells, which were subsequently drilled.

In September 1977, Shenandoah modified its estimate of proven recoverable petroleum reserves to 10.3 million barrels for Rubelsanto. Therefore, the construction contract with Entrepose was modified by reducing a portion of the pipeline from 12 inch to 10 inch in size, the elimination of the tanker loading facilities at Livingston and the re-routing of the line to a terminal at Puerto Barrios, with a reduction in cost to approximately $23 million. The financing agreements with Societe Generale were modified to reflect this reduced capital cost and the pipeline is now scheduled for completion in the second quarter of 1979.

The initial production from Rubelsanto is scheduled for 8500 barrels per day. There will be additional production from West Chinaja.

CONCESSION EXCLUDING RUBELSANTO: 1977 Joint Venture

The titleholders have entered into an agreement with a new Joint Venture arranged between Shenandoah (30 percent) and BEA Petroleum Limited (70 percent), to explore and develop the concession area outside the Rubelsanto structure. The 1977 exploration program for this area consisted of three widely-spaced wildcat wells on Xalbal, Chisec and West Chinaja, to obtain regional control and to test the potential of the concession area while development work is being carried out on Rubelsanto. Wells were drilled on the Xalbal, Chisec and West Chinaja structures. The Xalbal Well was abandoned due to mechanical difficulty without reaching its objective (the Coban C where production was obtained on Rubelsanto and Tortugas). The Chisec Well, which was located on a structure in an area too rugged for seismic, proved to be 2000–3000 feet below the crest of the structure, but encountered 35 gravity oil in Zone C17 in the Coban C formation (the Tortugas oil zone). The West Chinaja Well, on a one inch restricted choke, flowed 3300 and 3250 barrels per day from each of two zones.

BRISA's partner in BEA Petroleum Limited, a Bahamian subsidiary, is Societe Nationale Elf Aquitaine, a French oil company. Elf Aquitaine owns 21% with the balance held by BRISA. Elf Aquitaine is an international oil company which operates in some 33 countries in the world and has 38,000 employees and assets over $7 billion. Its shares, listed on the Paris Stock Exchange, are owned by thousands of shareholders. Elf's largest shareholder, holding 70 percent, is Enterprise de Recherches et d'Activities Petrolieres, an agency of the French Government.

We expect Elf to make a significant contribution through its technical, financial and marketing skills to the success of the exploration program. Recently they have requested appointment as the Operator of the Joint Venture.

brisa | COPPER

Transmetales Limitada, a wholly-owned subsidiary, has an operating copper mine on a five thousand acre concession in Guatemala. The copper ore is processed into a twenty-eight percent concentrate at the mine site. The total output has been sold to Rio Tinto Patino S.A. at prices quoted on the London Metal Exchange at time of delivery, less smelting and refining charges.

Copper prices are unrealistically low, in view of the cost of bringing new mines into production. Experts in this field are of the opinion that copper must be $1 or more per lb. to justify new capital investment. Present day prices are in the 58 to 60 cent range which is approximately a cash break-even point, without provision for amortization of investment. This situation reflects the present ownership of a good portion of the world's existing copper mines by Governments which, once involved, continue to operate the mines as a matter of Government policy without regard to the economics. Unfortunately, this policy, which discourages new investments, will create a shortage in several years as demand continues to rise and new capital investments lag.

The mine and mill are operating efficiently and the miners and mill operators are well trained. Operations have shifted from 100 percent underground mining to where approximately 75 percent of the mill input is coming from an open pit operation in order to reduce costs to at or near a cash break-even point. The underground mine is being produced at the rate which will keep the mine in good condition.

Copper concentrate from the Oxec Mine

brisa

MAGNESITE

Explom Limitada holds an exploitation concession in Guatemala on which there has been developed an ore deposit containing approximately 15 million tons of raw magnesite ore, low in impurities, and well situated with respect to transportation facilities.

The Company has entered into a joint venture with one of the leading magnesite companies in the world: Veitscher Magnesitwerke A.G. (VMAG) for the development of this ore deposit. VMAG, established in Austria in 1881, is one of the world's largest producers of refractory grade magnesite bricks from natural deposits.

Explom Limitada is wholly-owned by Magnesite International Bahamas Limited, which in turn is owned fifty percent each by BRISA and VMAG.

Exploration work on the concession in 1977 increased the ore reserves from 7 to 15 million tons.

VMAG, at its own expense, is carrying out the necessary metallurgical test work in their laboratories in Austria to ensure the economic production of specification dead-burned magnesite and to determine the most economic design of the facilities to be constructed to beneficiate and calcine the ore.

A preliminary estimate of the cost of a plant with the capacity to produce 30,000 tons per year of dead-burned magnesite is approximately $10 million.

Preliminary results from the metallurgical tests are excellent. The final feasibility report should be available in the third quarter 1978.

On successful completion of metallurgical tests, VMAG will purchase the total output from the new plant for a minimum of five years on favorable terms based on world prices, and will provide technical and operating support.

This arrangement with VMAG, a world leader in the production of high-grade magnesite refractories, gives the Company access to the specialized expertise to ensure the successful and timely development of this property to its maximum potential.

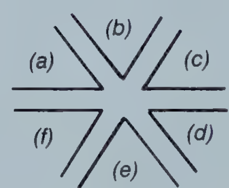
Magnesite sample from the central outcrop at Saquipec.

brisa | **NICKEL**

Transmetales Limitada, a wholly-owned subsidiary, holds laterite nickel deposits, where exploration work has defined approximately 43 million tons of ore averaging 1.79 percent nickel. The orebody is well located with respect to transportation facilities.

An engineering report by the Parsons-Jurden Division of The Ralph M. Parsons Company, indicates that a 60,000,000 lb. per year smelter could be constructed at a cost of $260 million (excluding financing charges), and that such smelter at today's prices should have a cash flow of approximately $94 million per year for amortization of investment and profit, assuming that fuel for operations is purchased from normal commercial sources.

The economics of a lateritic nickel smelter are very sensitive to fuel cost. When the Rubelsanto oil field goes into production in 1978, approximately 15–20 percent of the total energy produced from the field will be in the form of natural gas. At the scheduled production rate of 8500 barrels per day from Rubelsanto alone, there should be approximately 8 million cubic feet of gas produced with the crude oil, which would be sufficient to supply 25 percent of the fuel requirement of such smelter. There will be additional gas from the new discovery at West Chinaja although it is too early to estimate the rate. If the exploration results of the 1978 and 1979 Programs are successful, and sufficient reserves are developed to bring the crude oil pipeline to capacity, gas production (at the same gas/oil ratios) would be over 50 million cubic feet of gas per day which would be 150 percent of the smelter requirements. The studies of Parsons-Jurden indicate that use of natural gas as fuel, priced at 50 cents per 1000 cubic feet at the wellhead, would reduce the direct operating cost of nickel from 68 cents to 39 cents per lb.—a sizeable reduction which could go a long way toward offsetting any competitive advantage of long-established leaders in the field.



Lateritic Nickel Ore Samples
Percentages at Various Depths:
a) 1.92% at 3 meters, b) 1.46% at 12 meters,
c) 2.11% at 5 meters, d) 1.86% at 6 meters,
e) 2.16% at 13 meters and f) 1.65% at 3 meters.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1977 and 1976

ASSETS

	1977	1976
CURRENT ASSETS		
Cash	$ 38,770	$ 564,336
Certificates of deposit	—	3,250,000
Net receivable from 1977 Financing (Note 4)	2,509,524	—
Amounts reimbursable from pipeline financing	587,560	—
Accounts and notes receivable	774,977	92,440
Inventories (Note 1)	1,867,761	1,405,852
Prepaid expenses	162,757	129,002
Other assets	—	346,739
Total current assets	5,941,349	5,788,369
INVESTMENT IN EXPLORATION, DEVELOPMENT AND EQUIPMENT (Note 1)		
Copper Property in Operation		
Mine development and equipment costs	7,171,539	6,309,920
Deferred exploration and pre-operating costs	4,473,897	4,473,897
Less accumulated depreciation, depletion and amortization	(4,497,335)	(3,159,089)
	7,148,101	7,624,728
Properties in Exploration and Development		
Guatemalan petroleum properties (Note 3)	16,869,452	12,754,698
Pipeline construction (Notes 4 and 9)	3,185,720	—
Other Guatemalan properties (Note 3)	4,263,289	3,646,693
North American (Note 2)	—	421,944
	31,466,562	24,448,063
OTHER DEFERRED CHARGES (Note 4)	877,360	352,959
Total assets	$38,285,271	$30,589,391

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1977 and 1976

LIABILITIES AND STOCKHOLDERS' EQUITY

	1977	1976
CURRENT LIABILITIES		
Notes payable (Note 4)		
Banks	**$ 1,918,657**	$ —
Other	**44,706**	37,766
Current maturities of long-term debt (Note 4)	**600,000**	3,400,000
Accounts payable and accrued liabilities	**1,686,025**	1,048,534
Accrued exploration and development costs	**1,220,875**	—
Total current liabilities	**5,470,263**	4,486,300
DEFERRED LIABILITIES (Note 5)	**296,000**	296,000
LONG-TERM DEBT (Note 4)	**14,085,720**	6,000,000
Total liabilities	**19,851,983**	10,782,300
STOCKHOLDERS' EQUITY (Note 6)	**18,433,288**	19,807,091
Total liabilities and stockholders' equity	**$38,285,271**	$30,589,391

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF REVENUES AND COSTS

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years Ended December 31, 1977 and 1976 and three years ended December 31, 1977

	1977	1976	Three years ended December 31, 1977
OXEC COPPER OPERATION			
Sale of copper concentrate (Note 1)	**$ 2,556,598**	$ 2,604,390	$ 7,164,556
Less Oxec operating costs	**(3,898,401)**	(3,484,207)	(10,100,585)
Operating Loss (exclusive of items shown separately below)	**(1,341,803)**	(879,817)	(2,936,029)
OTHER COSTS AND EXPENSES, NET (Note 1)			
Depreciation, depletion and amortization	**1,448,322**	1,397,780	4,170,707
General, administrative and other expenses	**1,739,153**	2,701,600	7,587,959
Less general, administrative and other expenses deferred	**(1,275,478)**	(2,208,075)	(5,719,145)
Loss on sale of North American petroleum properties (Note 2)	**179,003**	—	179,003
	2,091,000	1,891,305	6,218,524
NET LOSS	**$(3,432,803)**	$(2,771,122)	$ (9,154,553)
NET LOSS PER SHARE (Note 7)	**$(0.42)**	$(0.37)	$(1.25)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
December 31, 1977 and 1976

	1977	1976
COMMON STOCK (Note 6)		
Common Stock, par value $3.30, authorized 14,000,000 shares; issued and outstanding 8,337,439 and 8,057,439	**$27,513,549**	$26,589,549
CAPITAL IN EXCESS OF PAR VALUE (Note 6)		
Excess of par value of common stock issued for predecessor company over book value at date of exchange	**(9,012,328)**	(9,012,328)
Excess of proceeds received over par value of common stock issued on sales of stock and exercise of warrants and options	**9,086,620**	7,951,620
Capital in excess of par value at end of year	**74,292**	(1,060,708)
ACCUMULATED DEFICIT (Note 1)	**(9,154,553)**	(5,721,750)
TOTAL STOCKHOLDERS' EQUITY	**$18,433,288**	$19,807,091

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BASIC RESOURCES INTERNATIONAL S.A. AND SUBSIDIARIES
Years Ended December 31, 1977 and 1976 and period since inception to December 31, 1977

	Year Ended December 31, 1977	Year Ended December 31, 1976	Since Inception to December 31, 1977
SOURCES OF FUNDS			
Loss for the period	**$ (3,432,803)**	$(2,771,122)	$ (9,154,553)
Less depreciation, depletion, amortization and loss on sale of property	**1,722,176**	1,397,780	5,304,027
Funds used in operations	**(1,710,627)**	(1,373,342)	(3,850,526)
Proceeds from long-term debt	**10,085,720**	—	31,051,351
Sale of stock and exercise of warrants and options	**2,059,000**	8,931,676	27,587,841
Proceeds from sale of North American petroleum properties	**242,941**	—	242,941
Total sources of funds	**10,677,034**	7,558,334	55,031,607
USES OF FUNDS			
Reduction of long-term debt and deferred credits	**2,000,000**	3,403,523	16,669,632
Investment in Guatemalan petroleum properties	**4,114,754**	2,609,744	16,869,452
Investment in pipeline	**3,185,720**	—	3,185,720
Investment in other Guatemalan properties	**1,237,893**	498,331	9,968,142
Acquisition of property, plant and equipment at Oxec, net of retirements	**350,398**	426,844	6,767,236
Charges deferred in connection with financing of debentures and bonds	**619,252**	—	1,100,339
Total uses of funds	**11,508,017**	6,938,442	54,560,521
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (830,983)**	$ 619,892	$ 471,086
Changes in components of working capital			
Cash and certificates of deposit	**$ (3,775,566)**	$ 681,950	$ 38,770
Net receivable from 1977 financing	**2,509,524**	—	2,509,524
Amounts reimbursable from pipeline financing	**587,560**	—	587,560
Accounts and notes receivable	**682,537**	5,027	774,977
Inventories	**461,909**	232,255	1,867,761
Other assets	**(346,739)**	247,194	—
Prepaid expenses	**33,755**	67,630	162,757
Notes payable	**(1,925,597)**	430,288	(1,963,363)
Current maturities of long-term debt	**2,800,000**	(1,243,775)	(600,000)
Accounts payable and accrued liabilities	**(637,491)**	199,323	(1,686,025)
Accrued exploration and development costs	**(1,220,875)**	—	1,220,875
Total increase (decrease) in working capital	**$ (830,983)**	$ 619,892	$ 471,086

The accompanying notes are an integral part of these statements.

(1) Summary of Significant Accounting Policies:

Investment in exploration, development and equipment

Basic Resources International S.A. and its subsidiaries (hereinafter referred to collectively as BRISA) are engaged for the most part in the exploration and development of various natural resource concessions in Guatemala. This includes the petroleum, copper, nickel and magnesite concessions. Operations have been started on a portion of the copper concession at the Oxec mine and commercial production was achieved in 1975. The entire Oxec production is sold to Rio Tinto Patino of Spain under an agreement in effect through 1983. A portion is still in exploration at December 31, 1977.

All costs, net of pre-operating revenues, incurred by BRISA including exploration, financing, administrative, organizational, promotional and depreciation expenses, were deferred prior to 1975. In 1975, BRISA began amortizing on a straight-line method over eight years, the previously deferred costs allocated by BRISA to the Oxec copper concession, but continues to defer such costs applicable to its other mineral interests. Such costs applicable to the petroleum concession are accounted for under the policy generally referred to as "full-cost accounting," and accordingly, such costs are to be amortized on the unit-of-production basis once commercial production commences. (See Note 10.)

The results of Oxec for the years 1977, 1976 and for the three years ended December 31, 1977, are reflected in the accompanying Consolidated Statements of Revenues and Costs.

Costs directly identifiable with a specific mineral are charged to the applicable deferred account. Indirect administrative costs incurred in 1977 and 1976 of $1,739,153 and $2,701,600, respectively, including interest costs, have been allocated by BRISA to its various concessions. $463,675 and $493,525 in 1977 and 1976, respectively, of such costs were allocated to Oxec and charged directly to expense. The balances have been deferred.

BRISA's investment in exploration and development properties in Guatemala for other than petroleum and pipeline is as follows:

	December 31, 1977	December 31, 1976
Copper	$ 444,934	$ 333,911
Nickel	2,779,572	2,383,124
Magnesite	1,038,783	929,658
	$4,263,289	$3,646,693

The recovery of BRISA's investment in exploration, development and equipment is dependent upon the future commercial productivity of the concessions. Deferred costs will be amortized as the concessions become commercial.

Property, plant and equipment

Property, plant and equipment accounts at Oxec are carried at cost and depreciated over the estimated useful life of the assets, principally on the straight-line method.

Principles applied in consolidation

The consolidated financial statements include the accounts of Basic Resources International S.A. and all its subsidiaries which consist principally of two Guatemalan subsidiaries, Transmetales Limitada and Recursos del Norte Limitada, and two Bahamian subsidiaries, Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. All significant intercompany items and transactions have been eliminated.

In accordance with generally accepted accounting principles in the petroleum industry, BRISA's $785,714 investment in BEA Petroleum Limited (BEA) a Bahamian corporation which is 79% owned by BRISA, and $2,335,802 representing its share of BEA's exploration costs (see Note 3) are reflected in the financial statements as investment in exploration and development. (See accompanying balance sheet of BEA Petroleum Limited.)

BRISA's investment in the various joint ventures described in Note 3 are reflected in the financial statements as investment in exploration and development. The following expenditures incurred by the other parties in connection with various joint venture agreements entered into with BRISA, wherein BRISA was a carried interest, are not reflected in these financial statements:

	1977	1976	Prior to 1976
Petroleum	$14,600,000	$23,600,000	$30,300,000
Magnesite	413,000	—	—
	$15,013,000	$23,600,000	$30,300,000

Foreign translation

The accounts of BRISA and its Bahamian subsidiaries are maintained in U.S. Dollars. The accounts of the Guatemalan subsidiaries are maintained in the Guatemalan currency (Quetzal) which has been at par with the U.S. Dollar since 1924. There are no restrictions in Guatemala on foreign exchange transactions. BRISA has adopted the practice of stating its consolidated financial statements in U.S. currency.

Inventory valuation

Inventories of approximately $650,000 and $1,405,852 at December 31, 1977 and 1976, respectively, consist of copper concentrate and materials and supplies and are all valued at the lower of cost (FIFO) or realizable value.

The petroleum joint ventures described in Note 3 own $2,400,000 of inventory of exploration materials and supplies at December 31, 1977, of which $1,500,000 is for the account of BRISA. BRISA has included in inventory $1,200,000 of such amount, being its estimate of the recoverable portion from third parties of such inventory value.

(2) North American petroleum properties:

The balance of exploration costs associated with operations in North America as of December 31, 1976, represented a 50% net profit interest in certain oil and gas leases of Petrotech, Inc. Such interest was sold back to Petrotech, Inc. and a loss of $179,003 on the sale has been included in the 1977 Consolidated Statement of Revenues and Costs. (See note 8.)

(3) Concessions In Guatemala:

BRISA is the holder of certain petroleum rights and copper, magnesite and nickel concessions in the Republic of Guatemala.

PETROLEUM (Six Petroleum Rights: 87,88,89,90,91 and 92)
Status:
Basic Resources International (Bahamas) Limited holds a 50% undivided interest in six petroleum rights (87, 88, 89, 90, 91 and 92) covering blocks 30, 53, 57, 62, 63 and 64 (approximately 933,000 acres) granted in 1970 by the Government of Guatemala. The remaining portions of the petroleum rights are held 25% by Saga Petroleum A/S & Co. and 25% by Shenandoah Guatemala, Inc. The original term of the concession was to March 10, 1976, and is renewed every two years in accordance with the Petroleum Code.

A declaration, in accordance with the Petroleum Code, was made to the appropriate government body that petroleum had been discovered in commercial quantities on the Rubelsanto structure on exploration right 92 (block 64). In accordance with the Code, this gives the exploration right the character of an exploitation right, and gives the titleholders the rights, and subjects them to the obligations, of a holder of an exploitation right. The authorities accepted this declaration and fixed a period of two years from September 15, 1976 for the titleholders to delineate the area, this period forming a part of the 40 year exploitation period.

The titleholders have an agreement with a Joint Venture consisting of BRISA (62½%) and Shenandoah Oil Corporation (Shenandoah) (37½%) whereby the Joint Venture is supplying all financing for both the exploration and development of the petroleum rights, and takes the production from these petroleum rights.

Saga Petroleum A/S & Co. (Saga) assigned its original interest of 25% equally to BRISA and Shenandoah and kept a 1¼% net proceeds interest until Shenandoah and BRISA recoup all expenditures made on behalf of Saga's 25% of the petroleum rights, at which time Saga may at its option acquire a 5% working interest in the Joint Venture (2½% from BRISA and 2½% from Shenandoah).

By special agreement with the Government of Guatemala, the total of royalties, income taxes and any other applicable taxes payable shall be 51% of the value of the crude oil at the wellhead. The Government, with one year's prior notice, may take these royalties and taxes in kind. In addition, there is a 2% overriding royalty.

In 1977, a new Joint Venture was established and, in that connnection, BEA Petroleum Limited (BEA) was organized in the Bahamas with an authorized capital of 1,000,000 shares of $1 par value. Societe Nationale Elf Aquitaine (Elf Aquitaine) acquired 214,286 of such shares, at the par value thereof, and BRISA acquired 785,714 of such shares.

BEA then entered into a Joint Venture with Shenandoah (the "1977 Joint Venture") to provide financing for the exploration and development of the petroleum rights, excluding Rubelsanto, and the 1977 Joint Venture has entered into an agreement with the titleholders of the petroleum rights for such financing, and for the assignment of production to the 1977 Joint Venture. BEA arranged at its sole risk and expense for the exploration well on Chisec and a well on the West Chinaja structure. Shenandoah and BEA shared exploration costs other than drilling, 63¾% for Shenandoah and 36¼% for BEA, until completion of the Chisec well, and thereafter 31⅞% for Shenandoah and 68⅛% for BEA. BEA has also opted to drill a second well on the West Chinaja structure. As a result of this, any production, excluding that from Rubelsanto, will be shared 30% for Shenandoah and 70% for BEA, subject to Saga's interests previously described. BEA has the further option to finance an additional $8,000,000 in exploration activity, in which event any future production, excluding that from Rubelsanto, shall be shared 25% for Shenandoah and 75% for BEA.

BRISA and Shenandoah financed the drilling of the Xalbal-1 well and, therefore, are entitled to recoup $5,000,000 from production of the petroleum rights, excluding Rubelsanto. This production is subject to the payment of 2% overriding royalty and 1¼% net proceeds interest.

Elf Aquitaine has contributed to BEA the funds required to enable BEA to finance the drilling of the three exploration wells and 15% of the other exploration expenses. Upon completion of the third well, they have the option to either (a) subscribe for an additional 81,076 shares in the capital of BEA for $500,000, or (b) sell their interest in BEA to BRISA for $2,000,000 to be paid out of production by December 31, 1980.

Provided Elf Aquitaine elects option (a) above, they have a further option to acquire from BRISA 119,047 shares of BEA in consideration for contributing an additional $8,000,000 to enable BEA to finance an additional $8,000,000 in exploration activity.

BEA also has options to purchase for cash, under certain terms and conditions, up to 75% interest in the Rubelsanto production and the pipeline and related facilities. These options are subject to approval by the lending banks referred to in Note 4. (See accompanying balance sheet of BEA Petroleum Limited.)

MAGNESITE Diana Patricia (Saquipec)
An exploitation concession was granted in June 1973, for a period of 40 years.

Reference is made to Page 10 of this Report for a description of the status of this concession.

COPPER
Oxec: An exploitation concession was granted in October 1972, for a period of 40 years.

Chisayte: An exploration concession was granted in July 1976, for a period of 3 years.

Chiacach: An exploitation concession was granted in April 1977, for a period of 40 years.

NICKEL Chitcoj, Chiis, Chatela, Buena Vista A, Buena Vista B: Application has been made for the conversion of the exploration concessions to exploitation concessions as provided under the Mining Code.

(4) Short-term borrowings and Long-term debt:

Short-term borrowings

BRISA has an agreement with a bank under which the bank advances to BRISA amounts equal to 75% of the provisional invoice value of copper concentrate sold, bearing interest at 1¼% per annum over the London Interbank Eurodollar rate. At December 31, 1977 there was $458,521 outstanding under this agreement. There was no amount outstanding at December 31, 1976.

BRISA has issued during 1977 a short-term note payable which has been periodically renewed for $1,000,000, bearing interest at 2% per annum over the prime commercial rate. This note is severally and jointly guaranteed by certain directors and/or officers of BRISA.

As of December 31, 1977, BRISA also had outstanding a $250,000 note payable to a bank, bearing interest at an annual rate of 9½%, which was guaranteed by a director. Subsequent to year-end, this note was refinanced with proceeds from the aforementioned loan for copper concentrate sold.

Maximum amounts of short-term bank loans outstanding were approximately $2,200,000 and $1,200,000 during 1977 and 1976, respectively. The average outstanding balances during 1977 and 1976 were approximately $655,000 and $198,000, respectively.

Weighted-average interest rates applicable to short-term borrowings were 8¼% in 1977 and 7% in 1976. The interest rates on outstanding borrowings at December 31, 1977 and 1976, were 9¼% and 8%, respectively.

Long-term debt

	1977	1976
Sinking Fund Debentures, due September, 1980	$ 4,000,000	$8,000,000
Series B Debentures, due December, 1980	4,000,000	—
First Mortgage Bonds, due December, 1980	3,500,000	—
1973 Transmetales Loan, due 1977	—	1,400,000
Pipeline Financing (see Note 9)	3,185,720	—
	14,685,720	9,400,000
Less: Current maturities	600,000	3,400,000
Long-term	$14,085,720	$6,000,000

In 1975, BRISA sold $9,000,000 of Sinking Fund Debentures, which will mature on September 10, 1980, and may be redeemed, at the option of BRISA, prior to that date upon payment of a premium of 3% through September 10, 1978 and decreasing progressively 1% on September 11 in each of the years 1978 and 1979. The debentures shall bear interest at 1¾% over the London Interbank Eurodollar rate, payable semi-annually in March and September. The interest rate was 9¼% per annum at December 31, 1977 and 8% per annum at December 31, 1976. The Indenture provides for a sinking fund payment of $2,000,000 at December 31, 1979. As security for the Sinking Fund Debentures, BRISA has pledged and delivered to the Trustee all the capital shares of Basic Resources International (Bahamas) Limited and Basic Resources (Petroleum) Limited. In connection with a recent financing (the 1977 financing), $4,000,000 of the Sinking Fund Debentures due December 31, 1977 and 1978, was refinanced by the issuance of an equal amount of debentures (Series B) due December 1980, which bear interest at 2¼% over the London Interbank Eurodollar rate payable semi-annually in March and September. The costs of $481,087, and $619,252, incurred applicable to the issuance of the Sinking Fund Debentures and the 1977 financing, respectively, have been deferred and are being amortized over the terms of the debt. The deferred portions as of December 31, 1977 and 1976, are $877,360 and $352,959, respectively. In conjunction with the 1975 issue, BRISA issued share purchase warrants which expire on September 10, 1980, entitling the holders thereof to purchase an aggregate of 1,000,000 common shares. These warrants are exercisable at varying prices as follows:

Period	Per Share Price
On or before September 10, 1978	$14.00
September 11, 1978 to September 10, 1979	17.00
After September 10, 1979	20.00

At the option of the warrant holders, satisfaction of the exercise price may be made either in cash or by the delivery of debentures, or a combination of both.

As part of the 1977 financing, BRISA also issued $3,500,000 of three-year First Mortgage Bonds. These bonds provide for semi-annual sinking fund payments of $300,000 each June and December with interest at the rate of 2¼% above the London Interbank Eurodollar rate. Under the Indenture agreement for the First Mortgage Bonds, BRISA agrees to remit to the Trustee 25% of net revenues from the Oxec concession, as long as any of the bonds are outstanding. The funds will be held as security for the payment of the bonds and may be applied to the payment of the sinking fund amounts. The First Mortgage Bonds are secured by the Oxec copper mine and plant. In addition, certain stockholders, two of whom are directors, have pledged an aggregate of 1,000,000 shares of BRISA as security for payment of the First Mortgage Bonds.

In conjunction with the $7,500,000 combined 1977 debt, BRISA issued share purchase warrants which expire in December 1980 entitling the holders thereof to purchase an aggregate of 1,500,000 common shares at $6.50 per share.

The 1973 Transmetales Loan represented borrowings made by BRISA under a May 1973 agreement. This loan was paid in June 1977, and had borne interest at 2¼% over the London Interbank Eurodollar rate.

(5) Deferred Liabilities:

Deferred liabilities consist primarily of advances repayable solely out of 50% of any future revenues, as defined, that may be received by BRISA from certain concessions.

(6) Common Stock:

A statement of stockholders' investment from the inception of BRISA in 1968 through December 31, 1974, is as follows:

	Shares Issued	Amount Recorded (a)
From inception to June 30, 1970:		
Issued for cash	3,155,651	$ 433,530
Contributed surplus arising from joint venture payments	—	675,000
During fiscal year ended June 30, 1971:		
For cash	160,711	626,335
For services rendered in connection with the sale of debentures	100,000	245,000
For conversion of debt	435,763	1,696,401
For acquisition of 50% of Petrotech, Inc.	256,042	826,319
During the fiscal year ended June 30, 1972:		
For acquisition of options on nickel concessions	60,028	238,100
For exercise of stock options	2,900	11,600
	4,171,095	4,752,285
Excess of par value of common stock issued for predecessor company over book value at date of exchange (b)	—	9,012,328
	4,171,095	13,764,613
During the six months ended December 31, 1972:		
For services rendered in connection with the sale of debentures	100,000	330,000
During the year ended December 31, 1973:		
For part of the purchase price of the copper beneficiation plant	100,000	330,000
For exercise of share purchase warrants by payment of cash ($98,000) and par value of debentures (Note 4) (c)	740,996	2,445,287
Balance, December 31, 1973 and 1974	5,112,091	$16,869,900

An analysis of the increase in common stock for the three years ended December 31, 1977, is as follows:

	Shares Issued	Amount: Par Value	Amount: Capital In Excess of Par Value
Balance, December 31, 1974	5,112,091	$16,869,900	$(222,286)
Exercise of share purchase warrants granted under term of an Indenture (Note 4)	1,330,003	4,389,010	3,171,008
Sale of treasury stock for cash	159,004	524,713	82,342
Exercise of options granted under an employee stock option plan and other	233,500	770,550	24,256
Balance, December 31, 1975	6,834,598	22,554,173	3,055,320
Issuance of stock for cash	928,300	3,063,390	4,494,398
Exercise of share purchase warrants granted under term of an Indenture (Note 4)	129,001	425,704	348,303
Exercise of options granted under an employee stock option plan and other (d)	165,540	546,282	53,599
Balance, December 31, 1976	8,057,439	26,589,549	7,951,620
Issuance of stock for cash	200,000	660,000	1,050,000
Exercise of options granted (i) under an employee stock option plan (55,000 shares) and (ii) to former holder of petroleum concession in Guatemala (25,000 shares) (e)	80,000	264,000	85,000
Balance, December 31, 1977	8,337,439	$27,513,549	$ 9,086,620

(a) Amounts recorded for issue other than for cash were in accordance with resolutions of the Board of Directors.

(b) Basic Resources International S.A. was incorporated in Luxembourg in December 1971, and acquired the net assets of Basic Resources International Limited, a predecessor company incorporated in Ontario, Canada. The par value of 4,171,095 shares of common stock issued at $3.30 per share exceeded the $4,752,285 net assets of the predecessor company by $9,012,328.

(c) The 740,996 shares were issued at $3.00 per share resulting in a $222,286 excess of par value of common stock issued over proceeds received from exercise of warrants.

(d) During 1976, options covering 15,000 shares were granted at an exercise price of $8.50 per share, options for 60,000 shares were exercised at a price of $3.30 per share, and 15,000 shares were forfeited. In addition to the exercise of employee stock options during 1976, other options for a total of 105,540 shares were exercised during 1976. 65,681 shares under option were cancelled in exchange for a total cash payment of $65,681 to the option holders, and 445 options expired.

(e) During 1977, options covering 75,000 shares were granted at an exercise price of $4.375 per share and options for 80,000 shares were exercised at prices ranging from $3.30 to $5.00.

As of December 31, 1977, there are 2,724,000 shares of common stock reserved as follows:

(1) There are 2,500,000 shares of common stock of BRISA reserved for issue upon the exercise of share purchase warrants in connection with the issue of the long-term debt described in Note 4.

(2) BRISA is authorized, under certain conditions, to issue to directors, officers and key employees options totaling a maximum of 5% of the outstanding shares. At December 31, 1977, 224,000 shares of common stock are reserved for issue upon exercise of such options as follows:

10,000 shares at $5.50 per share expiring June 12, 1978

25,000 shares at $3.30 per share expiring August 8, 1978

49,000 shares at $3.30 per share expiring April 14, 1979

50,000 shares at $5.50 per share expiring June 12, 1980

15,000 shares at $8.50 per share expiring December 16, 1981

75,000 shares at $4.375 per share expiring October 2, 1982

Of the 224,000 shares reserved, 148,200 shares were earned at December 31, 1977.

(7) Net Loss Per Share:

Net loss per share has been computed based on 8,268,977 and 7,402,117 average common shares outstanding for the years ended December 31, 1977 and 1976, respectively. All outstanding warrants and options have been excluded from the calculation since their effect would be anti-dilutive.

(8) Transactions with officers, directors and/or related parties:

BRISA has, from time to time, incurred short-term borrowings from certain of its officers and directors in the form of demand loans with interest rates approximating prime rates at the time the loans were incurred. During 1977, the maximum amount outstanding was $500,000. These loans were generally obtained to cover working capital requirements while arrangements were being completed for normal commerical loans. There were no such loans during 1976.

Certain directors and/or officers have jointly and severally guaranteed the $1,000,000 short-term note payable which is further described in Note 4.

During 1977, a director guaranteed the $250,000 note payable which is also described in Note 4.

A director of BRISA is also a director of Petrotech, Inc. As discussed in Note 2, BRISA sold its interest in certain properties of Petrotech, Inc. back to Petrotech, Inc.

In addition, certain stockholders, two of whom are directors, have pledged an aggregate of 1,000,000 shares of BRISA as security for payment of the First Mortgage Bonds described in Note 4.

Mr. Richard S. Aldrich, a director, on behalf of himself and a group of investors, has negotiated an agreement with the holders of the 2% overriding royalty interest on the Guatemalan petroleum properties described in Note 3, to acquire a portion of such interest. The closing of this agreement has not yet taken place.

(9) Commitments:

On February 4, 1977, and subsequently amended on March 13, 1978, BRISA and Shenandoah entered into an agreement with Entrepose S.A. for the furnishing of materials, equipment and construction of a pipeline from Rubelsanto to the east coast of Guatemala, including gathering system and tanker loading facilities, at a cost of approximately $23,000,000. Construction is estimated to be completed by July 1979.

BRISA entered into agreements on February 4, 1977, which were subsequently amended on March 13, 1978, with a consortium of banks headed by Societe Generale, for:

a) a Buyers Credit loan of French Francs 97,000,000 repayable in installments over a period of five years commencing six months after completion of the pipeline or 25 months from coming into force of this construction contract, whichever is earlier, bearing interest at the rate of 7¼% per annum. This loan is insured against political risk by COFACE, an agency of the French Government.

b) a Eurodollar loan of $6,500,000 repayable in installments commencing March 13, 1980 through March 13, 1983, bearing interest at the annual rate of 2¼% over the London Interbank Eurodollar rate.

The debt is a joint and several obligation of Basic Resources International (Bahamas) Limited and Shenandoah Guatemala, Inc. and has been guaranteed severally as to 62½% by BRISA and 37½% by Shenandoah Oil Corporation. The guarantors are relieved of their obligations under such guarantee agreements as they apply to the COFACE insured loan upon the happening of certain political events.

The two loans listed above total the equivalent of approximately $26,000,000 and the amount in excess of the construction contract price is intended for interest during the construction period, and the payment of insurance premiums to COFACE, and other expenses in connection with the pipeline, such as the acquisition of right of way, etc.

BRISA's share of costs of $3,185,720 estimated by the Joint Venture's operator as having been incurred as of December 31, 1977, have been reflected as long-term debt since such costs will be financed by the aforementioned agreements.

(10) Accounting For Oil and Gas Expenditures:

In December 1977, the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards No. 19 entitled "Financial Accounting and Reporting by Oil and Gas Producing Companies" to be effective for fiscal years beginning after December 15, 1978. This statement would require oil and gas producing companies to adopt a form of "successful efforts accounting" which, among other things, requires current expensing of geological and geophysical costs, the costs of carrying and retaining undeveloped properties and the costs of drilling exploratory wells which cannot immediately be determined to be commercial. This change from "full-cost accounting" is, in the opinion of management, not appropriate for a company such as BRISA, which is making expenditures on a single concession in Guatemala, and where, in accordance with "full-cost accounting," all costs of the exploration are to be amortized on the unit-of-production basis. The ruling of the FASB is being appealed by various organizations. If the Statement is allowed to stand and becomes implemented in 1979, BRISA will be required to change from "full-cost accounting" to the form of "successful efforts accounting" prescribed by the FASB and to restate its financial statements for prior periods. BRISA estimates that such restatement would have the effect of decreasing at December 31, 1977, the investment in Guatemalan petroleum properties as well as stockholders' equity by approximately $15,500,000. Reported 1977 and 1976 net loss would increase by an estimated $3,700,000 and $1,700,000, respectively. These amounts are subject to revision based upon information obtained by BRISA when compiling the data for restating its financial statements. The accounting change required under this FASB statement relates entirely to the timing of charges against net income and has absolutely no bearing on the financial condition of BRISA or the value of its assets.

AUDITORS' REPORT

To the Stockholders of
BASIC RESOURCES INTERNATIONAL S.A.:

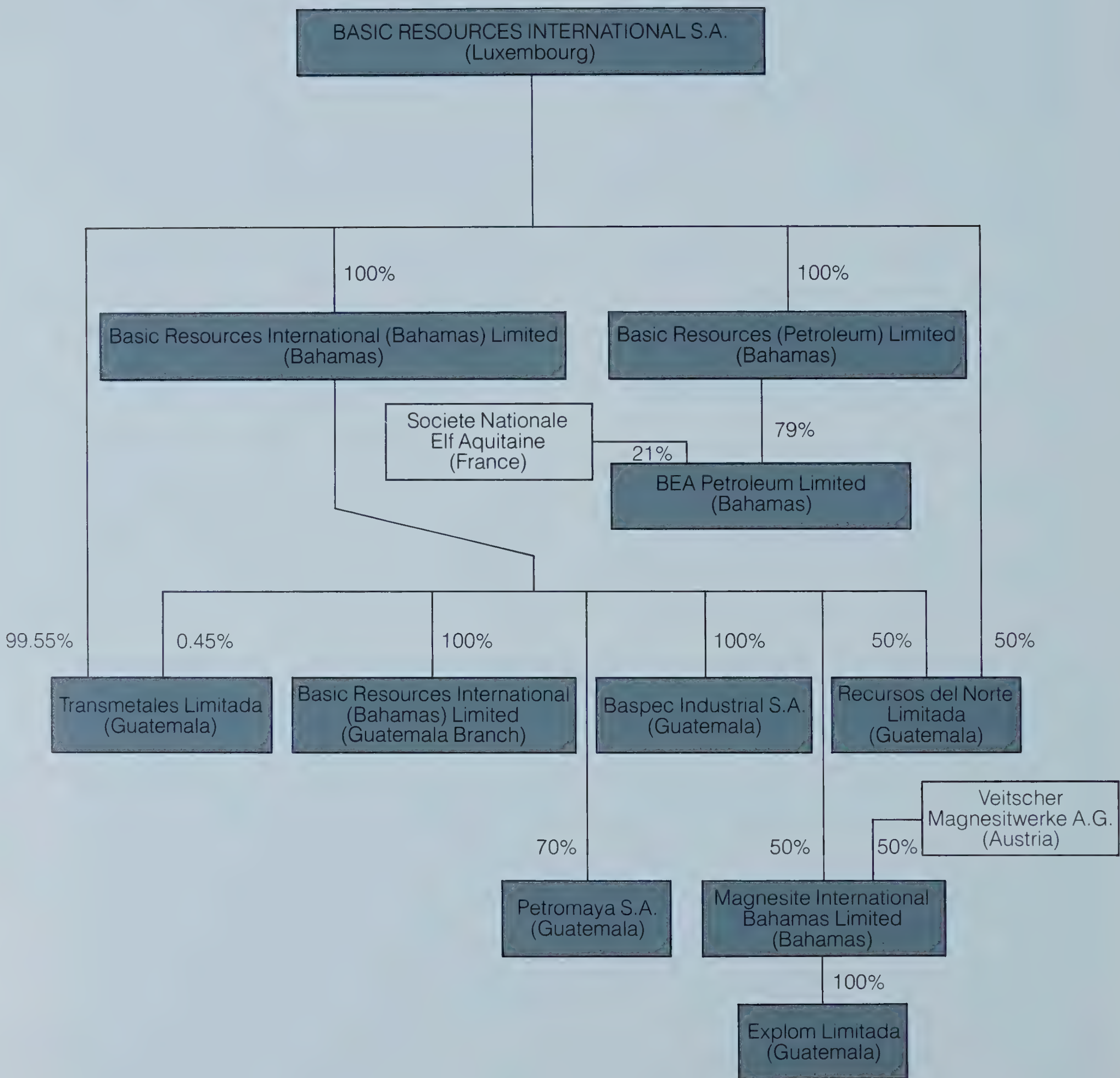
We have examined the consolidated balance sheets of Basic Resources International S.A. (a Luxembourg corporation) and subsidiaries as of December 31, 1977 and 1976, the related consolidated statements of revenues and costs, stockholders' equity, and changes in financial position for the years then ended, and the consolidated statement of revenues and costs for the three years ended December 31, 1977 and consolidated statement of changes in financial position since inception to December 31, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Note 1 to the consolidated financial statements, the Company and its subsidiaries have incurred exploration, development and equipment costs of $31,466,562 as of December 31, 1977, applicable to mineral and petroleum concessions in Guatemala. Recovery of these costs is dependent upon the future commercial productivity of the concessions.

In our opinion, subject to the recovery of exploration, development and equipment costs discussed above, the aforementioned consolidated financial statements present fairly the financial position of Basic Resources International S.A. and subsidiaries as of December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the periods mentioned in the first paragraph, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N.Y.
May 1, 1978.


BASIC RESOURCES INTERNATIONAL S.A.
(Luxembourg)
100%
100%
Basic Resources International (Bahamas) Limited
(Bahamas)
Basic Resources (Petroleum) Limited
(Bahamas)
Societe Nationale
Elf Aquitaine
(France)
79%
21%
BEA Petroleum Limited
(Bahamas)
99.55%
0.45%
100%
100%
50%
50%
Transmetales Limitada
(Guatemala)
Basic Resources International
(Bahamas) Limited
(Guatemala Branch)
Baspec Industrial S.A.
(Guatemala)
Recursos del Norte
Limitada
(Guatemala)
Veitscher
Magnesitwerke A.G.
(Austria)
70%
50%
50%
Petromaya S.A.
(Guatemala)
Magnesite International
Bahamas Limited
(Bahamas)
100%
Explom Limitada
(Guatemala)

BEA PETROLEUM LIMITED
Balance Sheet as of December 31, 1977

ASSETS

Cash	$ 549
Investment in Petromaya S. A.	14,000
Investment in petroleum properties	10,365,795
	$10,380,344

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable and accrued liabilities	$ 1,018,860
Shareholders' Equity:	
Common Stock authorized, issued and outstanding, 1,000,000 shares, par value $1.00	1,000,000
Surplus contributed by:	
—Basic Resources International S. A.	1,136,738
—Societe Nationale Elf Aquitaine	7,224,746
	9,361,484
	$10,380,344

NOTES TO BALANCE SHEET

(1) Significant Accounting Policies—

BEA Petroleum Limited (BEA) was organized in 1977 in the Bahamas with an authorized capital of 1,000,000 shares of $1 par value. Societe Nationale Elf Aquitaine (Elf Aquitaine) acquired 214,286 of such shares, at the par value thereof, and Basic Resources International S. A. (BRISA) acquired 785,714 of such shares.

BEA is engaged in the exploration of petroleum properties in Guatemala as further described in Note 3 of the Notes To Consolidated Financial Statements of Basic Resources International S. A. and subsidiaries.

The recovery of the investment in petroleum properties, which consists of capitalized exploration costs to be amortized as the petroleum properties become commercial, is dependent upon the future commercial productivity of the petroleum properties. See also Note 10 of BRISA's Notes To Consolidated Financial Statements for a discussion of "successful efforts accounting," which, if followed by BEA, would result in an estimated $6,700,000 write-off of deferred costs and a 1977 loss in the same amount.

(2) Financing of Exploration Costs—

Pursuant to an agreement among the shareholders, the exploration costs incurred by BEA have been financed as follows:

	Total	Elf Aquitaine	BRISA
Cash Expenditures			
Drilling			
—Chisec	$ 2,943,422	$ 2,940,560	$ 2,862
—West Chinaja-1	3,644,714	3,571,461	73,253
—West Chinaja-2	14,616	14,616	—
General and Administrative	888,306	266,216	622,090
Seismic, camp maintenance and other	1,409,049	718,334	690,715
Total cash expenditures	8,900,107	7,511,187	1,388,920
Expenditures yet to be billed at December 31, 1977	1,465,688	518,806	946,882
Total	$10,365,795	$8,029,993	$2,335,802

To the Shareholders of
BEA Petroleum Limited:

AUDITORS' REPORT

We have examined the balance sheet of BEA Petroleum Limited (a Bahamas corporation) as of December 31, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in the Notes to the balance sheet, the Company has incurred exploration costs of $10,365,795 as of December 31, 1977, applicable to its petroleum interests in Guatemala. Recovery of these costs is dependent upon the future commercial productivity of these interests.

In our opinion, subject to the recovery of exploration costs discussed above, the aforementioned balance sheet presents fairly the financial position of BEA Petroleum Limited as of December 31, 1977, in conformity with generally accepted accounting principles.

New York, N.Y.
May 1, 1978.

Arthur Andersen & Co.

OFFICERS AND DIRECTORS

CORPORATE OFFICERS

JOHN D. PARK
Vice Chairman And Chief Executive Officer

JOSEPH H. JONES
President And Chief Operating Officer

DONALD C. CAMPBELL
Executive Vice President

RONALD E. EVENSON
Vice President Petroleum

M. R. BONNER
Vice President Administration

JOHN FRENCH
Secretary

RICHARD L. BRIDGEWATER
Vice President-Treasurer & Controller

DIRECTORS

*ROBERT W. PURCELL
New York, New York
Chairman Of The Board
Business Consultant To The Rockefeller Family And Associates
Chairman Of The Board Of Trustees Of Cornell University

*RICHARD S. ALDRICH
New York, New York
President Of First Washington Securities Corporation
Director Of Shields Model Roland & Co., Inc.

DONALD C. CAMPBELL
Guatemala City, Guatemala
Executive Vice President

RONALD E. EVENSON
Guatemala City, Guatemala
Vice President Petroleum
Former Vice President Exploration And Development Of Saga Petroleum A/S & Co.

CHARLES J. HOKE
El Dorado, Arkansas
Consulting Geologist
Director Of Ocean Oil And Gas Company
Retired Senior Officer And Former Director Of Murphy Oil Corporation

JOSEPH H. JONES
Short Hills, New Jersey
President And Chief Operating Officer

WILLIAM E. LEONHARD
Pasadena, California
President And Chief Executive Officer Of The Ralph M. Parsons Company

*KENNETH G. MURTON
Westport, Connecticut
Former Vice President Of The First Boston Corporation In Charge Of The London And Zurich Offices

ENRIQUE C. NOVELLA
Guatemala City, Guatemala
Industrialist, Co-Owner Of Cementos Novella S.A.

*JOHN D. PARK
Don Mills, Ontario, Canada
President And Chief Executive Officer

*TAKI RIFAI
Paris, France
Directeur Of Banque Arabe et Internationale d'Investissement
Advisor To The Petroleum And Petrochemical Committee Of The Arab League
Former Middle East Manager For The French Petroleum Institute

ERNESTO RODRIGUEZ BRIONES
Guatemala City, Guatemala
Industrialist, Former Chairman And President Of Empresa Electrica de Guatemala S.A.
Director Of Banco Industrial S.A.

*SERGE SEMENENKO
New York, New York
Financier, Former Vice Chairman Of First National Bank Of Boston
Director Of Hilton International And Bonwit Teller
Trustee Of The Children's Hospital Medical Center Of Boston

ANTONIO TONELLO
Milan, Italy
President Of Credito Varesino

*CHRISTIAN WEYER
Geneva, Switzerland
Executive Vice President Of The Banque de Paris et des Pays-Bas (Suisse) S.A.

*Member Of Executive Committee

Transfer Agent
National Trust Company, Limited
Montreal, Quebec, Canada

Stock Listing
Montreal Stock Exchange-BASM
U.S. Over The Counter-BASRF

Financial Advisors
Banque de Paris et des Pays-Bas (Suisse) S.A.

BOARD OF DIRECTORS

Reading left to right, Serge Semenenko, Antonio Tonello, Richard S. Aldrich, Ernesto Rodriguez Briones, Charles J. Hoke, John D. Park, Robert W. Purcell, Donald C. Campbell, Kenneth G. Murton, William E. Leonhard, Ronald E. Evenson and Taki Rifai. Absent when the photograph was taken were Joseph H. Jones, Enrique C. Novella and Christian Weyer.

BASIC RESOURCES INTERNATIONAL S.A.

Head Office
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Designed and Produced for Basic Resources by Raleigh Communications, Inc. New York, N.Y.

The 1978 Annual General Meeting of Shareholders of the Company will take place in Luxembourg at 11:00 A.M. Tuesday, June 27th.

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